

# MERCHANT MARINE

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## REPORT

OF THE

### COMMITTEE ON MERCHANT MARINE OF THE BOSTON CHAMBER OF COMMERCE

RELATIVE TO BILLS PENDING BEFORE CON-  
GRESS RELATIVE TO GOVERNMENT OWNER-  
SHIP AND OPERATION OF MERCHANT VESSELS  
"IN THE TRADE BETWEEN THE ATLANTIC,  
GULF, OR PACIFIC PORTS OF THE UNITED  
STATES AND THE PORTS OF CENTRAL AND  
SOUTH AMERICA AND ELSEWHERE "



PRESENTED BY MR. NELSON

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REPORT OF THE COMMITTEE ON MERCHANT MARINE OF THE BOSTON CHAMBER OF COMMERCE RELATIVE TO BILLS PENDING BEFORE CONGRESS RELATIVE TO GOVERNMENT OWNERSHIP AND OPERATION OF MERCHANT VESSELS "IN THE TRADE BETWEEN THE ATLANTIC, GULF, OR PACIFIC PORTS OF THE UNITED STATES AND THE PORTS OF CENTRAL AND SOUTH AMERICA AND ELSEWHERE."

JANUARY 9, 1915.

to the EXECUTIVE COMMITTEE AND BOARD OF DIRECTORS:

There is some precedent in the practice of other nations for Government ownership of railroads; there is none whatever for Government ownership of a merchant marine.

Such experience in this direction as exists is either an accident or a fragment. The United States bought a small steamship line from New York to Colon as a part of the assets of the old French Panama Canal Co., and has operated that line as an incident of canal construction, "at a nominal bookkeeping profit of about 2 per cent for years, with insurance, depreciation, and interest disregarded—operative charges of a regular steamship concern, which, if paid by the Government line, would have involved a huge deficit and bankruptcy."<sup>1</sup> The Government of Western Australia has owned and operated a small coastwise steamship line for two years "with a loss of \$114,000 the first year and of \$96,000 the second."<sup>2</sup> It is not believed that this enterprise will be abandoned.

This is the net experience in Government ownership which the world affords—two lines, both of them financially failures. Yet the steamship business as a whole, in private hands, is and has been reasonably prosperous—as prosperous, on the average, as other industries, or it could not have procured capital for its great and constant growth. Twenty-five years ago the tonnage of all nations recorded by Lloyd's was 22,151,000; 10 years ago it was 36,000,000; now it is 49,089,000.

There has been almost no increase in the overseas tonnage of the United States in this period, but the causes are well known—this is not the place for their discussion at length, and they can not be remedied by a mere expedient of Government ownership. Steamers of a Government-owned line would, if built in the United States, cost more than competing foreign-built ships, or, if bought abroad, would cost no less than such competing ships, and would cost considerably more to operate. They would, of course, equally with private-owned American ships, be debarred from the subsidies of foreign Governments. A half a century of actual trial proves that under such conditions, and with only such exceptions as serve to prove the rule, American ships can be maintained in overseas commerce only at an annual loss that finally becomes prohibitive.

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<sup>1</sup> Statement of Mr. E. A. Drake, vice president Panama Railroad Steamship Co.

<sup>2</sup> Report of attorney general of Western Australia.



## MORE COSTLY THAN A REGULAR SUBSIDY.

This inevitable loss under these bills will have to be made up out of the Treasury of the United States, through appropriations for the maintenance of the Government-owned steamship service. There is no proof or suggestion that a Government-owned line under the American flag can be operated at any less expense than a private-owned line. In fact, the expense of a Government-owned line would certainly be greater, for it has been established again and again that the Government can not conduct any business so economically as private individuals trained from youth in that business and dependent on it for profit or for livelihood.

Experience has shown that it costs about 20 per cent more to build battleships in Government navy yards of the United States than in private yards, under like systems of accounting, and it is a fair assumption that there would be at least an equal contrast in the cost of ship operation. Therefore it is a reasonable expectation that if a subsidy of a given amount were required for the profitable maintenance of a private-owned merchant marine, a Government-owned merchant fleet would demand a subsidy at least 20 per cent, and probably much more than 20 per cent, greater, in the form of appropriations from time to time for the Government steamship corporation, of whose stock the Government holds 51 per cent while private capitalists may own the remainder.

Without entering on a consideration of the expediency or justice of a subsidy system, it is indisputable that this Government-owned ship project involves a particularly wasteful form of subsidy expenditure, inasmuch as trained and responsible private shipowners would be able to provide a given service at a lower cost, or for the same amount to render a more efficient and comprehensive service.

## SHIPOWNING A SPECIALIZED BUSINESS.

The proposed bills hold that the Government-owned merchant marine shall be managed by a shipping board composed of the Secretary of the Treasury, the Postmaster General, and the Secretary of Commerce, not one of whom, probably, would have had the slightest experience in or knowledge of the ocean-shipping business, which is a profession by itself, complex and difficult, requiring intense application and exceptional aptitude. It is not to be expected that Cabinet ministers, even of the highest general ability, could compete in this highly specialized calling with men who have made it the one thought and effort of their lives.

The Panama Canal Line is a conspicuous case in point. Its president is, and has been, Col. George W. Goethals, the distinguished builder of the canal. This Government line, though favored in the transportation of officials and employees, supplies, and materials, failed to earn a sum equivalent to its insurance, depreciation, and interest, which must be regularly met by all private steamship companies.

## DOES AN EMERGENCY EXIST?

It is said that an emergency exists because of the great European war, and that this emergency justifies a disregard of all precedents and demands immediate and extraordinary legislation. We doubt



that there is any such extreme emergency. Chartering is active; vessels long idle are being employed; freight rates have advanced. But these higher rates are due in chief part to risks incident to the war, to higher insurance rates, and to an increased cost of coal, supplies, and wages. Shipowners and merchants who have been questioned state that there is ample tonnage offering in the world in general for the reduced amount of trade that is being transacted. In South American commerce especially, on which stress is laid by the proposed bills, there are said to be more ships than cargoes. A widespread business depression due to the war and other causes has suddenly reduced the purchasing power of the South American republics. A new American freight steamship line has recently been established to Brazil.<sup>1</sup> Other American steamships naturalized under the new free registry law are scheduled to sail at frequent intervals to Argentina, Uruguay, Chile, and Peru. There is, and long has been, an American line to Venezuela, and there are two or three American lines, one the Government-owned service to the Isthmus of Panama, aside from the six American lines regularly plying through the canal in the coastwise trade between the Atlantic and Pacific seaports. The managers of the lines to the farther countries of South America state that because of the prevalent business dullness they are finding it difficult to load their ships and maintain their sailings without the additional handicap of having the Government of the United States as a competitor.

#### AS TO THE LACK OF COTTON SHIPS.

There is some difficulty in securing a sufficient number of ships, on the route from the southern cotton ports to Bremen. But it should be understood that because of mines and other conditions this is an extremely hazardous service. British and French ships, of course, are not available for the carrying trade to Germany, and the German Government has stipulated that cotton shall be brought to German ports only in ships of American register, which are also preferred for the export of German dyestuffs and chemicals. Twelve or more American steamers from the coastwise service have accepted charters in the Bremen cotton trade during the few weeks since that trade was reopened.

The information of the committee is that the real difficulty in the Bremen trade is not lack of ships but lack of marine insurance on ships and cargoes. A Federal war insurance board has already been constituted for temporary service through the European war. Proposals to extend the authority of this board, so that it can assume marine risks for the time being, while conditions remain as abnormal as they are now, are already before Congress. Such an expedient would solve the problem without any need of resort to the costly and dangerous expedient of Government ownership. If proper insurance

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<sup>1</sup>The United States & Brazil Steamship Line, under the auspices of the United States Steel Corporation, operates three American freight steamers from New York to Rio de Janeiro and Santos. Norton, Lilly & Co. operates three American freight steamers from New York to Montevideo, Buenos Aires, and Rosario. R. Grace & Co. (Merchants Line) and the New York-South American Line both operate American freight steamers from New York to Chile and Peru. The Red D Line operates four American mail, passenger, and freight steamers under ocean mail pay to Venezuela. The United Fruit Co. operates several American mail, passenger, and freight steamers from New York to the Isthmus of Panama and Colombia. The Panama Railroad Steamship Line operates several American mail, passenger, and freight steamships from New York to the Isthmus of Panama, connecting at Balboa for ports on the west coast of South America.



can be had, more ships will be available. There are still suitable American steamships not yet chartered. From this fleet, with return cargoes practically assured, enough tonnage should be had to carry all the cotton required for direct import by Germany. In addition to these steamships there is a large fleet of seagoing sail vessels capable of carrying cotton or other cargoes with reasonable safety. Insurance can be had. Indeed, several American sailing craft have been chartered in the past few days for lumber freights from the Gulf of Mexico to the Mediterranean.

#### A HAZARD TO NEUTRALITY.

There are large considerations of national prudence why American ships employed to carry cotton or other goods to German ports should be private-owned ships instead of the property of the National Government. Hon. Robert Lansing, the counselor of the Department of State, recently emphasized before a subcommittee of the House Committee on Naval Affairs the grave risks that would run in the transportation of conditional contraband to a belligerent port in a public ship of the United States. Raw cotton is regarded as noncontraband, but the very appearance of a national-owned ship in belligerent waters is fraught with a peculiar hazard to neutrality that does not attach to the voyage of a private-owned vessel.

An accident or affront to a Government-owned ship would be a vastly more serious affair than a similar happening to an ordinary commercial vessel not of a public character. A Government-owned merchant marine created in the stress of war would be a potential agency for the embroiling of the United States in the terrible catastrophe now convulsing Europe.

#### GOVERNMENT OWNERSHIP WILL NOT INCREASE TONNAGE.

No considerable increase in the amount of tonnage actually available for the carrying of our over-seas trade in any direction can be anticipated from this proposed expedient of Government ownership. All the American ships and all the neutral ships that could be bought and utilized for this purpose by the Government can be had equally well for charter for export at current rates on application to the present owners. Government ownership has no magic power to increase the tonnage of the world. New ships can not be constructed in either American or foreign yards in a period less than 7 months. 9 or 10 months or a year would be required for the largest cargo vessels. The British Government on December 23 proclaimed an embargo on the transfer of British ships to foreign flags without the assent of the British Board of Trade, which in present circumstances would hardly be forthcoming. Dutch, Scandinavian, Spanish, Italian, and other neutral steamers are in such active demand that they are earning such unusual rates of freight that it is not probable that our Government could purchase them now without the payment of inordinate prices. A scheme of Government ownership and operation is hazardous and difficult at any time, could be effected at the present juncture only by a prodigious expenditure.

Thirty or more German steamships, some of them of large tonnage, are interned at present in ports of the United States. The Hamburg



American Co., the larger of the concerns owning them, has recently declared that its ships were not for sale. Moreover, last August a rumor that these German steamers might be bought by the American Government immediately drew a notification from both Great Britain and France that the purchase and operation of these belligerent vessels under the American flag would be regarded as an unfriendly act and as a violation of neutrality.

The committee is deeply interested in the real revival and restoration of the American merchant marine in over-seas trade, but is profoundly convinced that an ambitious scheme of Government ownership would discourage and delay and not promote this great object dear to the hearts of the entire Nation. Shipowners and shipbuilders state that the introduction of these proposed bills has had the unfortunate result of halting private enterprise and defeating important plans for the extension of steamship services and for new construction. No business man, no business corporation, however resolute and resourceful, desires to have as a possible competitor the Government of the United States.

#### MENACING THE COASTWISE TRADE.

The proposed bills profess, in general language, to provide Government-owned ships only for "the foreign trade," but this profession is blown to the winds by an amendment adopted in the Senate Committee on Commerce, which includes Hawaii among the regions to which a Government-owned fleet shall operate. Hawaii is not a foreign country. It is not a dependency like the Philippines or Guam. It is a regularly organized Territory of the United States, and its ports are ports of the United States exactly as are Boston and New York and Philadelphia and San Francisco. Trade with Hawaii is part of our coastwise trade, in which none but American vessels may lawfully participate. There has not been a word of suggestion or complaint that the war in Europe affected in any way the transportation of merchandise between Hawaii and the American mainland, for which a large, new, and increasing American fleet is available. The inclusion of Hawaii among foreign ports in foreign trade is without a shadow of excuse; all interested in the American merchant marine will rightfully regard it as an ugly menace, as an "entering wedge" to Government competition in the entire coastwise commerce of this country, reserved for more than a hundred years to American ships and American owners and now employing a vast shipping of upward of 7,000,000 tons. Any plea that the help of the Government is needed in this mighty trade is wholly useless and indefensible.

#### THE LEASING CLAUSE.

The amendment added to the bill in the Senate Committee on Commerce, authorizing the Government to charter, lease, or transfer its ships to private corporations is a frank recognition of the force of the criticism which the original plan has met with everywhere from the representative mercantile bodies of the United States; but this modification also is essentially unsound. So long as merchant ships are more to operate under the American flag than under foreign



flags no Government-owned ships will be chartered by experienced shipowners unless the amount of this additional cost of operation be subtracted from the charter price, leaving that price merely nominal. Under such conditions the Government, of course, will actually be paying a concealed subsidy, which might much better be a frank, open, and stated one.

#### CONCLUSION.

The committee on merchant marine of the Boston Chamber of Commerce, therefore, disapproves the bills pending in both Houses of Congress (H. R. 18666 and S. 6856) for Government ownership and operation of vessels in the foreign trade for the following reasons:

(a) It is a sound principle that the Federal Government should not engage in a business which under suitable conditions can be conducted to equal or better advantage by private enterprise.

(b) Such an undertaking would be an unwise departure from the traditional policy of the American people, would involve a waste of expenditure of public money, and would imperil our neutral position in the great European war.

(c) No present emergency justifies the Government in embarking in the ocean shipping business; increased governmental facilities for marine insurance will largely solve the immediate problem of the cotton trade; Government ownership could not immediately increase the number of ships afloat upon the seas; and wherever there is a real need for vessels they can be as easily supplied by other means without resorting to this unsound and hazardous experiment.

(d) The proposed legislation would discourage private capital and personal initiative and thereby indefinitely defer the development of an American ocean shipping industry, so vital to the commercial progress of Boston, of New England, and of the whole United States.

We make the following suggestions as to methods for the creation of a strong and enduring merchant marine, which would be preferable to Government ownership and operation as proposed in the pending bills, and urge their consideration by Congress:

#### SUGGESTIONS.

1. The establishment in the Department of Commerce of a shipping board of five members after the example of the British Board of Trade, and similar organizations of other maritime Governments; such a shipping board to be composed of the Commissioner of Navigation, a representative of the shipowning interests, of the shipbuilding interests, and of the shippers in water-borne trade, and an expert in marine insurance, this board to have general supervision of the American merchant marine.

2. A prompt revision and modernizing of our navigation laws and regulations, so far as they unnecessarily increase the cost of equipping American ships as against foreign vessels.

3. An amendment of the ocean-mail law of 1891 so that the compensation now paid to 20-knot ships to Europe can be paid to ships of less speed, of the second class, suitable to establish regular passenger, and fast-freight services in naval reserve ships on longer routes to South America, Australasia, and the Orient.



4. In place of an investment of \$40,000,000 in Government ownership and operation, a Federal fund of the same amount, to be administered by the shipping board above referred to for the purpose of guaranteeing mortgages examined and approved by the board, or careful loans upon shipping built or purchased for over-seas trade and fitted for auxiliary naval service.

The sum of \$40,000,000 devoted to ownership and operation of a Government-owned fleet would produce only a relatively small fleet; but a proper use of a Government fund in the manner indicated could provide a large one, of far greater value to the commerce of the nation.

5. Annual retainers of a proper amount to citizen-officers and men of merchant vessels of the United States, after the practice that has proved so successful, particularly in the British mercantile marine, and special compensation to steamships not under contract for carrying mails, but built on designs approved by the Navy Department and assigned to the service of the Government as fuel ships, supply ships, transports, so that the Government may be able to control an adequate American auxiliary fleet and a naval reserve of officers and men in time of need.

6. To meet a present condition, an extension of the powers of the existing Bureau of War Risk Insurance to cover marine insurance on ships and cargoes, with the understanding that this bureau shall be continued when the war has ended.

Respectfully submitted.

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